Economic News
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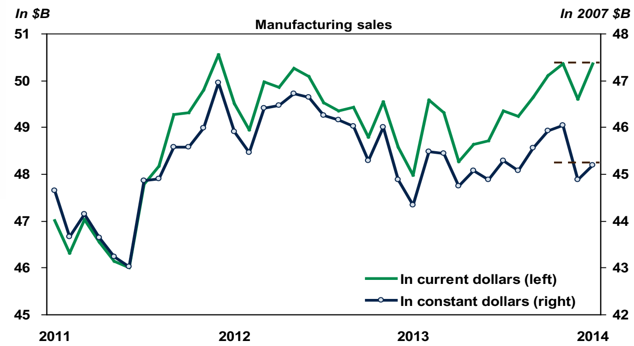
CANADA

Manufacturing sales rebound while inventories skyrocket

HIGHLIGHTS

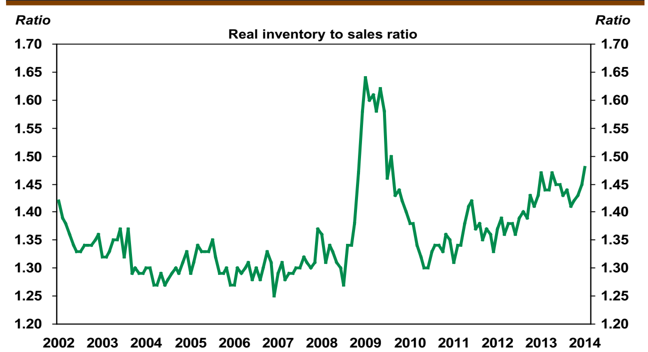
- Manufacturing sales rose 1.5% in January, much higher than expected.
- The increase is mainly due to gains in the primary metal processing (+8.0%), food (+2.7%) and miscellaneous manufacturing (+20.3%) industries.
- In real terms, sales advanced 0.7% while inventories jumped 2.9%.
- In both current and constant dollars, that is the biggest one-month jump in inventories since this economic figure was first compiled.

Manufacturing sales did some catching up in January



Sources: Statistics Canada and Desjardins, Economic Studies

Inventories seem particularly high



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

January's steep rise in manufacturing sales is good news. New orders went up 2.6%, also satisfactory, especially considering that it follows December's 3.9% gain. The backlog of orders thus posted better than 4.0% monthly growth for a second straight month. This points to better conditions for Canada's manufacturing sector.

Unfortunately, some grey areas remain. For one thing, January's 0.7% increase in sales volumes only recoups a portion of the steep 2.5% drop that occurred in December, when tough weather conditions impacted results. For another, the spectacular jump in inventories raises concern that manufacturers will have to slow production in the coming months to gradually get rid of their inventories.

Implications: In real terms, sales still have a way to go to make up for the ground lost in December. Because inventories are high, it will be hard for manufacturers to close this gap completely in the first quarter of 2014. The manufacturing sector's contribution to Canadian growth will therefore likely be anaemic in Q1 2014. The Canadian dollar's depreciation and rise by productivity are, however, having a positive effect on exporter competitiveness, a situation that augurs well for the remainder of 2014.

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